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SUBJECT: UPDATE ON CHILE'S ECONOMY: MARKETS RECOVER ON OCTOBER 13

REF: A) SANTIAGO 909 B) SANTIAGO 915

11. SUMMARY: This is the third in a series of reports on major developments in Chile's economy in the face of recent, global financial turmoil. On Monday, October 13, there was rebound in copper, the exchange rate, and the Chilean stock market, following the trend of international markets. Small- to medium-sized enterprises are having greater difficulty accessing credit. The Central Bank announced that only a small percentage of Chilean banks' liabilities are held outside of Chile. END SUMMARY.

Copper Prices Bounce Back A Little

12. Copper closed at \$2.28/pound, less than a 1% increase on the price of October 10. Prices may have been affected by an announcement from BHP Billiton, owner of Chile's Escondida mine (the largest in the world). The company declared force majeure (release from contractual obligations) on sales contracts for nine months due to the failure of one of its mills. Press reports estimated the failure could reduce Escondida's production of annual refined copper by 10%.

Chilean Peso Up vs. U.S. Dollar

13. The Chilean Peso registered its largest one-day appreciation against the U.S. Dollar in 13 years, closing at almost 618 Chilean Pesos to 1 U.S. Dollar (a change of more than 20 Pesos, or over 3%, on the rate of October 10).

Stock Market Rebounds

14. The IPSA regained almost 13% of its value from its close on October 10, in line with stock markets worldwide. The rebound was led mostly by retail and bank shares. It was the largest one day increase since the Index was created.

Difficulty Securing Credit For Smaller Companies

15. Press reports indicate Chilean banks are withdrawing lines of credit to small- to medium-size enterprises. Banks are making new loans more difficult through higher credit requirements and interest rates. One company CEO claimed that before the financial crisis, companies could get a loan for LIBOR + 80 basis points, now the rate is LIBOR + 800 basis points. The Minister of Economy said October 12 there was no crisis in the private sector and that restricted

access to credit was understandable given the state of global financial markets.

Central Bank: Chilean Banks' Foreign Debt Is Low

¶6. Central Bank President De Gregorio said in October 12 remarks to the press that only 7% of Chilean banks' debt is held by foreign entities. He underlined that one of the Central Bank's primary roles is to minimize the effects of the global financial crisis in Chile. De Gregorio noted that if firms began to hold back on investment in Chile, the Central Bank would have to factor this into monetary policy. This might be a hint that the Central Bank is considering a less contractionary policy.

SIMONS